HSA Benefits Consulting

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HB 561

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How HSAs Work

Claims example – without HSA
The Johnson's are 35 years old with 2 kids incurred $2,500 of claims and $500 in uncovered medical expenses in 2006.

Previous plan - $1000 deductible and 80/20 coinsurance

Annual premium	$6000
2003 expenses	$1000 towards deductible
	$300 Coinsurance
	$500 dental, eyeglasses
Expenses total	$7800
Tax savings	0
Total expenses	$7800

Claims example – with HSA
The Johnson's are 35 years old with 2 kids incurred $2,500 of claims and $500 in uncovered medical expenses in 2006. The Johnsons are in the 28% tax bracket

HDHP/HSA $5000 deductible - no coinsurance

Annual premium	$3600
2003 expenses	$2500
Dental, eyeglasses	$500
Expense total	$6600
Tax savings*	-$840
Total Expenses	$5760

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How Much You Can Put in Your HSA

Maximum Contributions
If you had an HSA qualified plan as of December 1st of 2007, you have until April 15th to contribute the maximum to your Health Savings Account of $2850 for single coverage or $5650 for family coverage unless you are over age 55 (see below). In 2008, those maximums change to $2900 and $5800 respectively.

Catch-Up Contributions
Because a new savings program tends to favor younger people with more time to save, a "catch up" provision was included with HSA regulations. For 2007 HSA holders age 55 to 65 may make additional annual contributions of $800, increasing by $100 each year to a maximum additional calendar year contribution of $1000 in 2009. If both husband and wife are insured by a qualified plan, each should open a separate health savings account so they may each contribute the additional $800.

Employer Contributions
An employer may contribute to an employee's Health Savings Account, but the employer must make available comparable contributions on behalf of all "comparable participating employees." Contributions are considered comparable if they are the same dollar amount or the same percentage of the qualified plan deductible. The exception is if the employer passes the funds through a Premium Only Cafeteria Plan 125 in which case the employer may match employees funds in the accounts or add additional funds for low wage earners.

Partial Year Contributions
If you establish an HSA by at least December of any year, your maximum contribution is the maximum amount (described above) for that calendar year. However, if you choose to discontinue the qualified plan any time in the next 12 month period, the maximum contribution will be prorated for the number of full months in which the qualified plan was in force. You will be charged tax on the funds that exceed the maximum, as well as a ten percent tax penalty.

Contribution Deadlines
HSA contributions must be made for a specific year on or before the due date (without extensions) for filing tax returns for that year. So contributions must be made on or before April 15th or the date you file your taxes, whichever comes first.

Higher Deductibles

You can purchase a qualified plan with a deductible beyond the HSA contribution limit, but the contribution must not exceed the cap. For example, a single person can purchase a qualified plan with a $5000 deductible; however, that person's maximum HSA contribution would still be limited to that year's cap (see above) for single coverage (Note: the in-network out-of-pocket max, including the deductible, for your HSA qualified policy may not cannot exceed the out-of-pocket maximum allowed by federal law. For example, in 2008 it's $5600 single and $11,200 family. Some carriers are selling policies with individual deductibles of 10,000 for a single. Though these are certainly high deductible plans, they exceed the out-of-pocket limit to qualify for an HSA.

HSA Contributions must be Cash
Health Savings Account contributions must be in cash. For example, contributions cannot be made in stock or other property.

Rollovers are Permitted
Rollover contributions from Archer MSAs and other HSAs are permitted. Rollovers from one HSA to another are not subject to the annual contribution limits and rollover contributions need not be in cash. Rollovers from an IRA, a health reimbursement arrangement (HRA), or from a health flexible spending arrangement (FSA) are permitted effective January 2007 and are subject to annual limits. The U.S. Treasury Department has more information here.

Excess HSA Contributions
Contributions by an individual are not deductible to the extent they exceed the maximum limits. Excess contributions by an employer generate taxable income to the employee. In addition, a 10% excise tax is imposed on the excess funds.

Distribution of Funds from a Health Savings Account

Distributions for Qualified Expenses
When distributions from an HSA are used to pay for qualified medical expenses of the account owner, his or her spouse, or dependents, the distributions are excluded from gross income — even if the individual is not currently eligible to make HSA contributions and/or does not itemize his deductions on his federal income taxes.

Distributions not used for Qualified Expenses
Distributions not used for qualified medical expenses are includable in gross income and, for applicants under age 65, subject to an additional 10% tax.

For Ineligible Individuals
If the HSA owner is no longer "eligible" (e.g., over age 65, entitled to Medicare or no longer enrolled in a qualified health plan), distributions used to pay qualified medical expenses continue to be exempt from gross income.

Determination of Qualified Medical Expense
The person who establishes an HSA makes the qualified medical expense determination and should maintain verifying expense records. The HSA bank or trustee makes no judgments on what may or may not be a qualified medical expense. They simply accept the judgment of the HSA owner.

In addition, employers who make contributions to an employee's HSA cannot make a qualified medical expense determination. Determining qualified medical expense is always the job of the HSA owner. If audited, the IRS will decide if the medical expense met the guidelines for qualified distribution.

HSA Disbursements for "Old" Expenses
The HSA account must be established before the date of the medical claim which is to be paid or reimbursed from the account. However, there is no tax code rule preventing a custodian, trustee, HSA administrator or insurer from making your Health Saving Account effective date back to the date you are first eligible (i.e., the first day of the first full month the HSA high deductible health plan is in effect). This is the date from which the maximum allowable contribution is calculated, and is the date when allowable withdrawals can begin.

When you incur a qualified medical expense, you are not obligated to pay the expense with available HSA funds. You face a trade-off: You can spend after-tax income, in return maximizing the long-term savings in your HSA, or you may use the HSA funds to pay for the expenses.

Financial professionals advise, in most circumstances, using your HSA funds to pay necessary qualified medical expenses. Keep in mind, there is no deadline for withdrawing funds to reimburse yourself for medical receipts for which you paid after tax dollars (after the account was established). Some HSA owners pay for all medical receipts with after tax dollars, save the receipts, and let the account grow with interest. At some time in the future when they are short of funds, they will withdraw funds (equal to the amount of the receipts) from the account.

HSA Distributions after Death
If HSA owner dies, the account becomes the property of the named beneficiary. If the spouse is the beneficiary, the surviving spouse is subject to income tax only on HSA distributions not used for qualified medical expenses.

If the HSA passes to a person other than the spouse, the HSA terminates as of the date of death, and the person is required to include in gross income the assets of the HSA at the date of death. The taxable amount is reduced by any HSA payments for the decedent's qualified medical expenses, if paid within one year after death.